



DRA

*Division of Ratepayer Advocates
California Public Utilities Commission*

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August 11, 2006

To: Jonathon P. Tom, Program and Project Supervisor
Water Division

From: Danilo E. Sanchez, Program Manager
DRA Water Branch

Dear Mr. Tom:

This letter provides DRA's reply comments to parties' comments in response to Water Division's July 7, 2006 request for comments on the existing Rate Case Plan (RCP) that were received on July 31, 2006. In its July 7, 2006 letter, Water Division requested comments regarding:

1. Whether workshops would facilitate the process to implement the Water Action Plan (WAP) and to improve the RCP
2. Methods to implement the WAP; and
3. Methods to improve the RCP.

Comments in response to Water Division's July 7, 2006 letter were provided by the following on July 31, 2006:

1. California American Water Company (Cal Am)
2. California Water Association (CWA)
3. Division of Ratepayer Advocates – Water Branch
4. Joint Signatories (A group comprised of three investor-owned water companies and two environmental groups: California Water Service Company, California American Water Company, Golden State Water Company, Mono Lake Committee, and Natural Resources Defense Council)
5. Park Water Company (Park)
6. Suburban Water Company (Suburban)

Due to the complexity and potential impact of many of the WAP and RCP items, DRA supports the inclusion of many of the suggestions received for implementing these proposals in the upcoming rulemaking where each option can be fully vetted in a transparent and deliberative decision-making process.

The comments received demonstrate that the parties differ on many process and implementation issues for the RCP. With regard to implementing of WAP objectives, the responding parties provided over forty different recommendations involving a variety of allowances, incentives, revenue adjustment mechanisms, surcharges, balancing accounts, advice letter processes, budget increases, and discretionary investment accounts. Also included in the WAP recommendations were many conservation proposals.

Workshops

DRA underscores again its belief in the value of workshops as an integral part of the upcoming Rulemaking to revise the RCP and implement the WAP. In the six responses to Water Division's letter received on July 31, 2006, four parties discussed workshops. Three responses indicated a preference that workshops be held to better incorporate the objectives of the WAP. Others expressed concern over the ineffectiveness of workshops. DRA acknowledges that some of the workshops held in R.03-09-005 were unproductive and an inefficient use of parties' time. However, DRA hopes that the Commission will not dismiss the value of workshops due to those workshops.

DRA believes that with the assistance of a skilled outside facilitator, much progress on the issues raised by parties could occur in a short period. A professional facilitator could leverage parties' time and efforts by structuring a dialogue to forge shared commitments to revise the RCP and implement the WAP. This type of structured dialogue should produce results which could be memorialized by the facilitator and reviewed by parties in a timely manner.

In this letter, DRA has separated the majority of the party's comments into two groups: those issues that should be carried forward into the upcoming rulemaking and those issues that have already been litigated during the RCP Proceeding and should be dropped from further consideration. DRA does not comment on the merits of these proposals here, but rather acknowledges the validity of considering including these issues in the upcoming rulemaking to revise the rate case plan where each proposal can be fully fleshed out.

Questions for Consideration in the WAP/RCP Rulemaking:

Multi-District Companies GRCs

1. What are the pros and cons of Class A water companies filing a single rate case application for all districts? Should the GRC schedule for July 2007 and beyond combine some multi-district company GRC reviews into one GRC filing?

Scoping Memo

1. Water Division is proposing the Assigned Commissioner for each GRC include a checklist as part of the Scoping Memo for the proceeding. (See Water Division July 19, 2006 letter and attached checklist). Which elements of this checklist should be included? Which should not be included? Why or why not? Are there additional elements that should be included on such a checklist? Please address items in the following areas:

- water quality,
- water conservation
- infrastructure investment
- Low-income ratepayer assistance

Improving efficiency in GRC Review

1. What are the pros and cons of modifying the RCP to require every Class A water company to submit a standardized GRC Application, standardized Results of Operations (RO) reports, and standardized electronic RO files to calculate revenue requirements and summary of earnings tables?

Cost of Capital

2. What are the pros and cons of the Commission instituting a single annual generic rate of return case that determines return on equity for all Class A water utilities at one time?
3. What are the pros and cons of limiting each Class A water company to one cost of capital review every 3 years and apply the resulting rate of return to all districts within a company? Should this apply to some or all companies? Why?

Alternate Dispute Resolution

1. What opportunities exist for Alternative Dispute Resolution in the GRC process? What changes to the RCP would be required? What changes to the time or manner of settlement negotiations should be made?

Escalation Year Issues

1. What changes, if any, should be made to escalation year increases? What are the pros and cons of using specific escalation rates for different types of expenses?

Schedules

1. Should the Commission create a revised GRC schedule for Class A water companies covering the period beginning July 2007 and beyond or not?
2. If additional requirements are incorporated into the RCP, should the schedule for the processing of each GRC be modified to allow adequate time for review? If so, how?

Interim Rates

1. Are changes needed to the procedures for adopting interim rates? If so, is a standard procedure and timetable for Class A Water companies needed?
2. Are changes needed to the PU Code to give Commission discretion to establish interim rates based on amounts reached in settlement agreements in lieu of the present rates escalated by the rate of inflation?

List of Issues that do not belong in the new Rulemaking

The following issues were either litigated during R.03-09-005 and resolved in D.04-06-018 and should therefore not be litigated again in the new Rulemaking; or they do not require a Commission decision and can be worked out via informal agreement between the utilities and DRA, such as issues relating to the Master Data Request.

Deficiency Review

1. Revise process to one formal filing by eliminating the Proposed Application.
2. Adopt objective criteria to determine when GRC Application is complete and assign neutral party to evaluate completeness of the application.
3. Assign ALJ to the GRC within 15 days of proposed application submission to assist with resolving disputes on deficiencies.

Removing the need for, or modifying who conducts, the deficiency review of rate case applications will shift the burden to DRA to request needed data which wasn't flagged in a deficiency review. This approach will likely increase the amount of discovery and delay in the processing of rate cases. DRA has the responsibility to review and process GRCs. As such, DRA needs to ensure that required elements of the application have been provided. This approach is also consistent with the processing of energy rate cases, where DRA is responsible for conducting the deficiency review of the Notice of Intent draft rate case applications.

General Office Expenses

1. Making rates reflecting General Office expenses effective company-wide for multi district companies in the year G.O. expenses are reviewed.

This issue was discussed at length in R.03-09-005 and was resolved in D.04-06-018.

Earnings Test

1. Eliminate earnings test.

Revisions to the earnings test were discussed in R.03-09-005. The Commission declined to rule on it in D.04-06-018 stating that, "... a Commission decision is not necessary or perhaps even desirable, to memorialize a change. ... we encourage the parties and the Water Division to work cooperatively to resolve these issues in a mutually agreeable manner, and use carefully selected means to memorialize the agreement."

Discovery

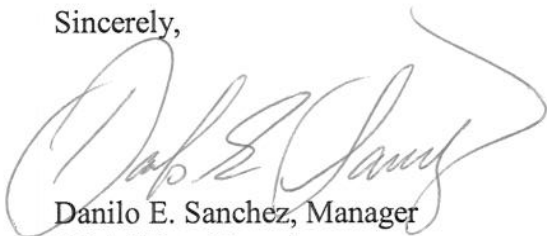
1. Eliminating the Master Data Request (MDR), and replacing it with targeted data requests (DRs).
2. Revising the Master Data Request (MDR) to include explicit instructions, examples of data tables and templates for submitting data, require cross references and electronic provision of data?

3. Submitting some of the MDR data to the CPUC in other methods such as in the Annual Report for Class A water companies, or may data requested in the MDR be incorporated in GRC Applications by reference to an earlier submittal?

The Master Data Request is an essential component of every rate case. MDR responses give DRA necessary and useful information in assessing the company's request. These steps ensure that the Commission has adequate information to begin the review of utility data at the start of the general rate case proceeding. In D.04-06-018, the Commission ruled that this issue relates to Commission practices that have been adopted with varying levels of formality and that parties could work cooperatively to resolve issues in a mutually agreeable manner.

DRA welcomes the opportunity to discuss these proposals with all of the parties in the upcoming rulemaking. Effective implementation of the RCP and WAP issues require careful consideration, and an opportunity for all interested parties to discuss and provide comments on the merits of the various proposals to ensure a sound Commission decision.

Sincerely,



Danilo E. Sanchez, Manager
DRA Water Branch

cc: Service Lists in R.03-09-005 and R.06-04-010
Steve Larson, Arocles Aguilar, Dana Appling, Pete Arth, Diana Brooks, Paul Clanon, Kevin Coughlan, Michelle Cooke, Laura Doll, Belinda Gatti, Ted Howard, Rami Kahlon, Laura Krannawitter, Monica McCrary, Angie Minkin, Atamturk Nilgun, Bob Lane, Cynthia Walker, Randy Wu